

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0087-06  
Bill No.: HCS for SCS for SB 86  
Subject: Retirement Systems and Benefits - General; Retirement - Local Government;  
Retirement - State; Attorneys; Counties; Law Enforcement Officers and Agencies;  
Higher Education Department; Retirement -Schools; Teachers  
Type: Original  
Date: April 9, 2013

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Bill Summary: This proposal changes the laws regarding public employee retirement.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Local Government</b>	<b>\$4,819,536</b>	<b>\$5,783,444</b>	<b>\$5,783,444</b>

**\*Does not reflect the increase in the unfunded actuarial accrued liability of \$22,603,998 to the Public School Retirement System and \$1,515,845 to the Public Education Employees' Retirement System.**

## FISCAL ANALYSIS

### ASSUMPTION

#### Sections 56.807 and 488.026

In response to a similar proposal, HB 169, officials from the **Prosecutor's and Circuit Attorney's Retirement System (PACARS)** stated the amendments to section 56.807.5 makes the payments from the general revenues of the respective counties respond to the funded ratio of the assets and liabilities of PACARS, as determined by its actuaries. As such, the amendatory language operates to assure that PACARS is neither over funded nor underfunded. Thus, the system will be able to pay its pension liabilities as provided by law without concern that the funding mechanisms will result in excess funds in the system.

The amendment to sections 56.807.7 and 488.026 respond to the reduction in funding to PACARS which has resulted from the migration of counties to the Fine Collection Center in the recent past. As such, this amending language replaces a revenue stream which had previously guaranteed PACARS' ability to pay its pension liabilities as they arose. Taken together with the amendments to 56.807.5, the fiscal impact of the proposed legislation would secure PACARS' ability to pay its pension obligations as defined by law.

Officials from the **Joint Committee on Public Retirement** state that based on information provided by Office of the State Courts Administrator (CTS) in 2012, provisions included in this proposal would increase the surcharge contribution to PACARS. The estimated revenue as provided by the CTS of the inclusion of the \$4 fee paid to the fine collection center would be approximately \$611,988.00. Depending on the PACARS annual actuarial valuation and the resulting funded ratio, the county monthly contribution may be adjusted. The current funded ratio of 99% would allow for current monthly contribution levels to remain unchanged.

Officials from the **Office of the State Courts Administrator** state that based on the data for the past five years, FY 08 through FY 12, they assume that the average is approximately 131,369 fine collection center cases on which this \$4.00 surcharge could be applied. The department anticipates the revenue from a \$4.00 surcharge would be approximately \$525,476 in any given year.

#### Section 86.257

In response to a similar version of this proposal, officials from the **St. Louis Police Retirement System** assumed the proposal reduces non-duty disability vesting requirement from 10 years to 5

ASSUMPTIONS (continued)

years and modifies disability determinations from the Retirement System Board of Trustees and Medical Director to the Board of Police Commissioners or successor body and a Medical Board. The provisions included in this proposal affecting St. Louis Police Retirement System would result in an increase to the employer contribution of approximately \$28,941 (.04%) annually.

Sections 104.1205 and 104.1215

In response to similar legislation, HB 353, officials from the **Missouri State Employees Retirement System (MOSERS)** assumed the proposed legislation would, if enacted, reestablish the employer contribution rate for the College and University Retirement Plan (CURP), which is a defined contribution plan administered by MOSERS for professors and administrators holding faculty rank at state colleges and universities, referred to by law as "outside employees." As proposed, the employer contribution rate would be changed to 7% of payroll from the current rate of 1% of payroll less than the normal cost contribution rate of the defined benefit plan. In addition, the proposal would allow a university's governing body to prospectively require employees hired on or after July 1, 2014, to contribute an additional amount of up to 4% of payroll. A provision of federal law is also referenced to allow the institutions to "pick-up" or treat certain contributions as employer contributions under the Internal Revenue Code in order to allow employee contributions to be made on a pre-tax basis. Lastly, the legislation would prohibit any outside employee who first becomes an employee on or after July 1, 2014, from making a one-time election to participate in the defined benefit plan administered by MOSERS.

Presently, the CURP employer contribution rate is equal to 1% of payroll less than the normal cost contribution rate of the defined benefit plan. For FY 2014, MOSERS employer normal cost for pre-2011 hires will be 8.73% and the normal cost for post-2010 hires will be 3.08%. This results in a combined employer normal cost of 7.38% and a CURP contribution rate for FY 2014 of 6.38% of pay.

Because the plan changes that were enacted in 2010 significantly altered the design and employer normal cost of the defined benefit plan, an unintended consequence is that, over time, there will be a significant decline in the employer contribution to the CURP, thus diminishing the value of the plan for those participants. This legislative proposal would establish the employer contribution rate at 7% of payroll in an effort to address this issue before the CURP contribution rate declines significantly.

Officials from the **Joint Committee on Public Retirement** assume the proposal would indicate that such provisions may not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

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ASSUMPTIONS (continued)

In response to similar legislation, HB 353, officials from the **Metropolitan Community College, Missouri Southern State University, Linn State Technical College, University of Central Missouri, University of Missouri** and **St. Louis Community College** each assumed the proposal would not fiscally impact their respective higher education institutions.

Section 105.684

Officials from the **Joint Committee on Public Retirement** assume this section would not fiscally impact their agency.

In response to a previous version of this legislation, SB 86, officials from the **MoDOT and Patrol Employees Retirement System, Missouri Local Government Employees Retirement System, County Employees Retirement Fund and Prosecuting and Circuit Attorneys' Retirement System** each assume the current proposal would not fiscally impact their respective agencies.

Officials from the **Public School and Education Employees Retirement System** assumed the proposal would not fiscally impact their agency.

Sections 169.070 and 169.670

Officials from the **Joint Committee on Public Retirement** state that according to the actuarial information provided by the Public School Retirement System (PSRS) and Public Education Employees Retirement System (PEERS), the legislation would indicate that such provisions would constitute a substantial proposed change in future plan benefits as defined in Section 105.660(10), RSMo.

The provisions included in this proposal affecting PSRS would increase the unfunded actuarial accrued liability (UAAL) by \$22,603,998. The decrease in contributions to the PSRS would total approximately \$11,798,793 annually which is an employer/teacher matching contribution. The provisions in this proposal affecting PEERS would increase the UAAL by \$1,515,845. The increase in contributions to the PEERS would total approximately \$174,022 annually with is an employer/employee matching contribution.

Officials from the **Public School and Education Employees Retirement System** state that there are two temporary benefit provisions available to members that are set to expire on July 1, 2013; 25 and Out Provision and the 2.55% Formula Factor with 31 or more years of service.

ASSUMPTIONS (continued)

The 25 and Out Provision allows a PSRS member to take an early reduced retirement benefit. Eligible service retirees, who are under age 55 with 25 to 29.99999 years of credit and do not qualify for Rule of 80, are able to retire under this provision with a reduced benefit formula factor. This benefit formula factor provision expires July 1, 2013.

This legislation removes the expiration date of July 1, 2013 for the 25 and Out Provision. This provision would decrease the normal cost (with a 2% service purchase load) of the PSRS plan by \$3,873,861 which allows for a -0.21% decrease in the contribution rate, a savings to the annual required contribution of \$8,389,210.

The 2.55% Formula Factor Benefit Provision allows for eligible members with 31 or more years of service to retire with an additional 0.05% Formula Factor. Eligible service retirees who have 31 or more years of credit with PSRS are eligible for normal retirement under the full benefit formula using the 2.55% factor. This benefit formula factor provision expires July 1, 2013.

This legislation removes the expiration date of July 1, 2013 for the 2.55% Formula Factor Provision with 31 years or credit or more. This provision would decrease the normal cost (with a 2% service purchase load) of the plan by \$9,020,684 which allows for a 0.09% decrease in the contribution rate, a savings to the annual required contribution of \$3,409,583.

Currently, there is one temporary benefit provision (25 and Out Provision) available to PEERS members that is set to expire on July 1, 2013.

The 25 and Out Provision allows a PEERS member to take an early reduced retirement benefit. Eligible service retirees, who are under age 55 with 25 to 29.99999 years of credit and do not qualify for Rule of 80, are able to retire under this provision with a reduced benefit formula factor. This benefit formula factor provision expires July 1, 2013.

This legislation removes the expiration date of July 1, 2013 for the 25 and Out Provision. This provision would increase the normal cost (with a 1.5% service purchase load) of the PEERS plan by \$86,430 which allows for a 0.01% increase in the contribution rate, a cost to the annual required contribution of \$174,022.

The total savings to the contribution rate of this legislation for PSRS and PEERS of Missouri is \$11,624,771.

Officials from the **Office of Prosecution Services** and **Missouri Local Government Employees Retirement System** assume the current proposal would not fiscally impact their agency.

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<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>
<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>LOCAL GOVERNMENT</b>			
<u>Revenue</u> -Increase in surcharge contribution to Prosecuting Attorneys and Circuit Attorneys Retirement System (\$56.807 and 488.026)	\$437,897	\$525,476	\$525,476
Expense - Surcharge contribution to Prosecuting Attorneys and Circuit Attorneys Retirement System (\$56.807 and 488.026)	(\$437,897)	(\$525,476)	(\$525,476)
<u>Costs</u> - City of St. Louis (\$86.257) Increase in employer contribution	(\$24,118)	(\$28,941)	(\$28,941)
<u>Savings</u> - Public Schools (PSRS) Decrease in Employer Contributions (\$169.070 & 169.670)	\$3,495,504	\$4,194,605	\$4,194,605
<u>Costs</u> - Public Schools (PEERS) Increase in Employer Contributions (\$169.070 & 169.670)	(\$72,509)	(\$87,011)	(\$87,011)
<u>Savings</u> - Public Schools (PSRS) Decrease in Employer Contributions (\$169.070 & 169.670)	<u>\$1,420,659</u>	<u>\$1,704,791</u>	<u>\$1,704,791</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<u><b>\$4,819,536</b></u>	<u><b>\$5,783,444</b></u>	<u><b>\$5,783,444</b></u>

**\*Does not reflect the increase in the unfunded actuarial accrued liability of \$22,603,998 to the Public School Retirement System and \$1,515,845 to the Public Education Employees' Retirement System.**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation changes rules and regulations associated with retirement funding and benefits to public employees.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Prosecuting and Circuit Attorneys' Retirement System  
Joint Committee on Public Retirement  
Office of the State Courts Administrator  
St. Louis Public Retirement System  
Office of Prosecution Services  
Missouri Local Government Employees Retirement System  
Metropolitan Community College  
Missouri Southern State University  
Linn State Technical College  
University of Central Missouri  
University of Missouri  
St. Louis Community College  
MoDOT and Patrol Employees Retirement System  
County Employees Retirement Fund  
Public School and Education Employees Retirement System  
Missouri State Employees Retirement System





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